

Statement

by

**Bob Taft
Governor of Ohio**

before the

**United States Senate
Committee on Governmental Affairs**

Good afternoon, Mr. Chairman and members of the Committee. I am Ohio Governor Bob Taft. I am grateful for the opportunity to testify today on a subject that has the attention of motorists and consumers in Ohio and throughout the nation. We are here today because gasoline prices affect everybody – not just the motorist at the pump. I commend you for holding today’s hearing.

Recent, severe increases in gasoline prices in my state are, to say the least, baffling. In Ohio, the price of regular gasoline is up approximately 13%, from \$1.549 to \$1.731 since last month and more troubling, up over 50% from a year ago when a gallon of regular gasoline was selling for \$1.151 (*current prices are as of Friday, June 23rd*). The price of gasoline in Ohio is currently five percent above the national average.

Our citizens are demanding, if not complete answers, at least some rational justification for this dramatic price increase. Every day, I hear from people throughout our state about the burdens of this price increase. I hear from senior citizens on fixed incomes. Robert York of Centerville, Ohio wrote to tell of the choices he is making between going to the doctor, traveling to the grocery store or attending church on Sunday. I’ve heard from Cheryl Dolin in Carroll County, a single mom making \$6.50 per hour. For Cheryl, a 50% increase in gasoline prices has placed a tremendous burden on an already stretched budget.

The impact on increased fuel prices on our transportation and business sector is equally dramatic. Just last week I heard from Kevin Burch, the president of Jet Express trucking in Dayton. Mr. Burch’s company uses about 4,000,000 gallons of diesel fuel a year. If diesel prices stay at current levels, Jet Express trucking will pay about \$1.8 million more in fuel costs this year. These are real dollars to a small business that already operates at close margins. Ohio roadways carry the fourth largest volume of freight traffic of any state in the nation. We provide critical transportation linkages from the east to the west, from the north to the south. Interstate 75, which runs through Toledo and Cincinnati, carries \$25 billion worth of goods each year by itself. These

unexplained price increases are not only penalizing Ohioans, they also impact the nation's ability to move goods from one destination to another.

Mr. Chairman, I recognize that motor fuel production and distribution are very complex processes that are influenced by a host of factors. And the most fundamental fact is that ours is a nation heavily dependent on petroleum-based energy. A fact likely to remain true for the foreseeable future.

Crude oil prices have almost tripled since January of 1999, and for a nation that imports 55 to 60 percent of its crude oil, and even imports some refined product; the impact of foreign price hikes has been significant.

The Congressional Research Service (CRS) reports a number of other factors including pipeline problems, low domestic inventories of crude oil and gasoline, and Unocal's RFG patent as affecting price increases. The report also cites U.S. EPA's new Phase II clean air requirements for Reformulated Gasoline, which refiners serving parts of the Midwest are attempting to meet with ethanol, also have impacted prices. However, since Ohio chose to meet its Clean Air obligations through other types of air pollution control measures, such as automobile testing, and not through the use of alternative fuels, we can not understand why prices are so high in our state.

I salute the efforts of this Committee to examine the factors that have contributed to higher gasoline prices at the pump. I support inquiries into the variety of market forces, and any illegal activities that may be exacerbating the situation.

While it's natural to feel that gas price increases are unwarranted, I think it is more accurate and constructive to recognize that the underlying realities that impact our gas prices threaten our nation's future prosperity. The most fundamental reality is this – for a nation with an economy that is so heavily dependent on oil, we have no coherent energy policy to reduce our dependence on foreign oil or our vulnerability to rapidly escalating price spikes like this one. This fundamental failing exposes the fragility of U.S. economic and national security. And it is compounded by the lack of a sensible, coordinated approach to environmental policy at the federal level.

I commend this Congress for rededicating itself to the task of devising a comprehensive energy policy for the United States. The President should work with the Congress to establish a proactive stance on energy research, exploration, production and conservation. Unfortunately, the Administration up to now has not devoted adequate attention to a visionary energy policy.

I commend Majority Leader Lott, Chairman Murkowski and others for introducing

S. 2557, which provides a useful framework to begin work on a truly comprehensive national energy policy. I don't believe this legislation alone can be the last word on addressing this problem, but it's a serious wake-up call to begin a national dialogue on one of the greatest challenges confronting us.

We also must develop a sensible national environmental policy in a manner that would complement an effective national energy policy. Senators Voinovich and Breaux and others

deserve enormous credit for introducing the Air Quality Standard Improvement Act, a bill to provide a common sense approach to promulgating regulations under the Clean Air Act while increasing public health, safety and environmental protection. This legislation comes in response to the Administration's disturbing history of issuing environmental regulations without adequately identifying risks to health, and with no consideration of costs and benefits. In 1997, U.S. EPA issued new air quality standards – which are now under a court challenge – without conducting risk assessments or cost-benefit analysis. The Administration also ignored the concerns of the White House Council of Economic Advisors about the economic burdens of the new rules, which amounted to a costly regulatory shot in the dark.

Mr. Chairman, as I said earlier, Governors throughout the Midwest and across the nation are concerned about high gasoline prices. The situation has prompted some people, governors and non-governors alike, to suggest adjusting federal and state fuel taxes to ease the pinch of rising pump prices.

I have opposed the suspension or elimination of the federal gas tax because the tax is a dedicated user fee that generates needed revenues for highway safety, construction and maintenance. Ohio maintains the fifth largest roadway system, the fourth largest in freight volume, the fourth largest in traffic volume and the second largest inventory of bridges in the nation. We are confronting congestion and replacing our aging bridges. For these reasons, we cannot afford to contemplate the reduction of our state gas tax. My administration is committed to maintaining a safe, efficient transportation system in Ohio with a strategy incorporating adequate highway capacity and transit alternatives. We know that rough, poorly-maintained, congested roads are unsafe roads that harm vehicle performance, result in reduced mileage per gallon of gasoline, and endanger the traveling public.

Ohio's transportation strategy relies on revenues from the dedicated fuel tax, which Congress devoted solely to transportation purposes under TEA-21. I am not certain Congress or the Ohio General Assembly could find adequate alternative sources of funding for transportation safety and construction if either the federal or state gas taxes were suspended. Nor am I confident that reductions to either tax would result in any significant lasting price reductions for consumers at the pump.

I also want to advise the Committee of our very serious concerns related to ethanol consumption that I have discussed on several occasions with Senator Voinovich. First, let me be clear that we are proud of the environmental contribution made by ethanol and I continue to support the use of this renewable, domestically produced fuel. Nevertheless, the Senator and I have become aware of a worrisome consequence of Ohio's own recent increase in ethanol consumption. Under the funding formula adopted under TEA-21, Ohio's federal highway appropriation is determined in large part by our contribution to the Highway Trust Fund. At the time of enactment, this was a welcome policy change for Ohio. But, because ethanol-blended federal gasoline fuel taxes are credited to Ohio's highway trust fund differently from other gasoline taxes, the increase in ethanol use in Ohio has significantly decreased the amount of revenue we receive from the Trust Fund.

There is a 5.4-cent per gallon federal tax break on each gallon of ethanol-blended gasoline sold. In addition, 3.1 cents of the tax that is collected on ethanol is credited to general revenue funds and not to the Highway Trust Fund. In other words, Ohio's contribution to the Highway Trust Fund is reduced by 8.5 cents for each gallon of ethanol-blended fuel sold in Ohio.

For Ohio, these reduced Highway Trust Fund contributions are substantial, as they decrease the State's trust fund contributions by \$185 million annually. The problem, which now appears to impact Ohio uniquely because we are a historic donor state and large ethanol consumer, may become more widespread if ethanol consumption increases throughout the Midwest or nationally.

Senator Voinovich has pledged to work with me on a suitable solution to this problem. I also wanted to alert the Committee to our concerns in the event Ohio's experience with ethanol becomes more widespread. I believe we can address this problem, and fix our highway funding anomaly, while still encouraging further development of an important domestic energy source.

With our nation's recent experience with MTBE fresh in mind, I would encourage Congress to conduct vigorous oversight of this vitally important issue. We need to ensure that we understand the present condition as fully as possible as we contemplate policy remedies that will impact the nation's quality of life and economic health far into the 21st century.

Mr. Chairman, thank you for the opportunity to appear today. I would be glad to answer any questions the Committee may have.